

SUBJECT: Sierra Leone 2011 Investment Climate Statement

Openness to and Restrictions on Foreign Investment

Summary. Any assessment of Sierra Leone as a potential site for investment must bear in mind the two omnipresent challenges of this small nation. The devastation of the decade-plus civil war and the daunting challenge of extreme poverty continue to impact fundamentally almost all aspects of Sierra Leone society. After the war, international focus on Sierra Leone brought considerable foreign aid and programs. The Sierra Leone economy today remains heavily dependent on that foreign aid. Institutional structures, both government and private, continue to develop, but are immature. Private and public organizations are generally characterized by poor governance and corruption.

The country is still primarily agrarian, but with great potential value in mining, specifically in the notorious diamond sector. The value of Sierra Leone's considerable natural resources still has not been successfully leveraged to improve the lives of Sierra Leone citizens. Although sincere efforts have been made to regulate the movement of diamonds, via The Kimberly Process for instance, substantial value exits Sierra Leone through smuggling across its porous borders.

The war and poverty have contributed substantially to health and education challenges that affect the labor force today. The life expectancy in Sierra Leone is 48 years of age and the illiteracy rate for Sierra Leoneans over the age of 15 is at least 40 percent. The prime labor demographic needed by foreign industry, workers 25-35 years old, are today's victims of war and poverty. Few have more than four years of education, fewer are trained in a vocational skill, and even fewer have management skills. The result is a critical void where foreign industry has an important need; namely, there are few available trained Sierra Leoneans available to manage local staff and assist in navigating the cultural, governmental, and logistical challenges which foreign industry will face. The Lebanese community in Sierra Leone has traditionally filled the void of middle managers. Foreign investors will have to become familiar with the pervasive Lebanese business community in Sierra Leone.

Finally, war and poverty have impeded the progression of critical infrastructure like energy and communications. Certainly, foreign investors will be challenged by electricity and telecommunications availability and dependability. Yet, these challenges can also be viewed as business opportunities.

These societal challenges withstanding, there are encouraging signs in Sierra Leone's investment climate. Foremost among them is what seems to be a sincere and determined priority among national leadership to boost the market economy. The Government of Sierra Leone (GoSL) continues to work to improve the integration of the private sector to advance modern technologies into the mining and agricultural development strategies as well as to continue to build the industrial base to create more jobs.

Beyond the historical foreign direct investment (FDI) focus on mining, agriculture, and industry, increased overseas investor interest and a facilitating approach by the GoSL can be seen in

telecommunication, fishing, banking, oil, and infrastructure improvements. The GoSL has specifically put in place fiscal incentives for investment in the key sector of agribusiness, mining, tourism, infrastructure, and renewable energy. Chinese FDI and projects have become very visible. The largest road construction project in Sierra Leone's history is ongoing in Freetown under the management of a Chinese multinational company and Chinese companies have been invited to bid for the tender to build a new airport at Songo to serve the capital city.

Policy. The GoSL Agenda for Change is the guiding policy document in efforts to advance the country's social conditions and improve the investment climate. The agenda focuses on four key priorities:

1. Provide a reliable power supply to the country by improving the management and regulation of the energy sector, strengthening revenue collection, and increasing generating capacity
2. Raise quantity and productivity in agriculture and fisheries
3. Develop a national transportation network
4. Ensure sustainable human development through the provision of improved social services

Market Access. Located on the south west corner of West Africa, Sierra Leone is home to six million people and provides easy access to a market of 30 million via the Mano River Union (MRU), which it shares with Liberia, Guinea and Cote d'Ivoire and a market of over 225 million people in Economic Community of West African States (ECOWAS). Sierra Leone has duty-free access to large markets like the European Union and United States under treaties such as the EU Everything But Arms (EBA) initiative and U.S. African Growth and Opportunity Act (AGOA).

Public-Private Partnerships. To date, opportunities for private sector participation in the Sierra Leone public domain have most often been found in energy, transportation and port infrastructure, and communications. The GoSL has set the goal of developing between 700 and 1000 MW of power within the next five years. This will include Phase 2 of the Bumbuna Hydro and Bekongor Hydro projects. The government is anxious to secure more private sector investment into these hydro projects. Currently, the country is also in the midst of the biggest road construction program in its history—a \$900M program managed primarily by a Chinese multinational company. Similarly, the GoSL is participating in a submarine fiber optic cable project that will link Sierra Leone to Europe and other West African states and intends to divest its interest in the project to the private sector in 2012.

Extractive Industries. Mining in Sierra Leone is characterized by known deposits of rutile (a major source of titanium), bauxite (from which aluminum is extracted), titanite iron ore, diamonds, gold, chromite (a major source of chromium), platinum, lignite (brown coal), clays, and base metals such as copper, nickel, molybdenum (used to strengthen and harden steel), lead and zinc. In 2009, a consortium led by U.S. oil company Anadarko revealed potential oil deposits of up to 450 million barrels off the southern coast of Sierra Leone. Anadarko is in the

midst of a 2 year period of testing and will return in April 2011 for the next phase of tests. The commercial viability of these oil deposits is still undetermined.

Sierra Leone has been a focus for the Energy Governance and Capacity Initiative (EGCI) -- a Department of State-led, U.S. interagency effort to provide a wide range of technical and capacity building assistance to governments of select countries that are on the verge of becoming the world's next generation of oil and gas producers. Sierra Leone also participates in the Extractive Industries Transparency Initiative (EITI). Having fully satisfied the EITI Board four sign-up indicators, Sierra Leone is currently an EITI candidate country and will have two years to be validated as a compliant country.

Ports. The geo-strategic location of Sierra Leone's Freetown area harbor makes it a strong potential for development as a trans-shipment global trade hub. Following the evaluation of bids received from the public tender process, the Sierra Leone Port Authority signed a concession agreement in which it will transfer its container terminal management and stevedoring activities to the private sector, Bollore Africa Logistics, for a twenty (20) year concession period. Bollore, a French registered company listed on the Paris Stock Exchange, operates 8 container terminal concessions in Africa; offers stevedoring in 10 ports in Africa; and also operates in North and South America, Europe, the Middle East, Asia and Oceania. Mismanagement, inefficient operations, and high financial losses are the GoSL justifications for engaging a foreign firm to take over these duties. The infrastructure at the ports is outdated and cannot handle modern vessels resulting in a recent reduction in traffic volumes. Subsequently, a plan is in place to also better link the port to inland mining operations via over 200KM of rail links.

Airport. The Ministry of Transport and Aviation secured a grant of \$8.9 million from the World Bank to upgrade the Lungi International Airport. Rehabilitation required includes a new terminal building, a modern car park, construction of a new runway and repair to the existing terminal and runway. China Engineering Company Limited has submitted an architectural design for the new terminal. Group Europe Company has been awarded a contract to improve passenger and cargo handling.

Telecommunications. Regarding communications, the GoSL has recently issued a 3G license to one of the existing GSM operators. Through a 100 percent government owned special purpose vehicle (SPV), analogous to a limited company/partnership, the GoSL is participating in the Africa Coast to Europe submarine fiber optic cable project scheduled to begin in the first quarter of 2012. Once cable construction is complete, the GoSL will divest the majority share of government interest in the SPV to the private sector and disengage in the management of the business.

Strategy, Legislation, and Law Relating to the Investment Climate. In 2009, a national Private Sector Development Strategy was launched by the GoSL. The strategy is designed to support the MTI in developing and implementing a comprehensive Private Sector Development Plan and complements the standing legislation related to FDI:

- The Home Mortgage Finance Act, 2009, regulates home mortgage financing and institutions.

- The Companies Act, 2009, provides for the registration of companies and for other related matters. Provisions of this law include: mandating disclosure of personal conflicts of interest by company directors and officers, requiring shareholder approval of large related-party transactions to reduce possible misuse of company assets, and providing shareholders with rights to hold the directors liable for damages in a related-party transaction. In the case of a related-party transaction that is harmful to the company, the act offers the possibility of rescission of the transaction. The act also grants shareholders access to all relevant documents.
- The Goods and Services Tax Act, 2009, provides for the imposition of a broad based tax on the consumption of goods and services in Sierra Leone and to provide for other related matters.
- The Bankruptcy Act, 2009, provides for declaring as bankrupt any person who cannot pay his debts of a specified amount and to disqualify him from holding certain elective and public offices or from practicing any regulated profession and for other related matters.
- The Telecommunications (Amendment) Act, 2009, amends the Telecommunications Act, 2006.
- The Mines and Minerals Act, 2009, consolidates and amends the law on mines and minerals; promotes local and foreign investment in the mining sector by introducing new and improved provisions for exploration, mine development and marketing of minerals and mineral secondary processing; ensures management of the mineral sector is transparent and accountable in accordance with international best practice; promotes improved employment practices in the mining sector; improves the welfare of communities adversely affected by mining; and introduces measures to reduce the harmful effects of mining activities on the environment.
- The Finance Act, 2009, alters the taxation structure.
- The Payment Systems Act, 2009, provides for the establishment, operation, designation and supervision of electronic and other payments, clearing and settlement systems, and the rights and obligations of transacting and intermediating parties.
- Investment Promotion Agency Act, 2007, established The Sierra Leone Investment and Export Promotion Agency (SLIEPA) which became operational in May 2008 as the country's official agency focusing on developing policies and programs to stimulate local and export trade, improve the investment climate, encourage expansion and diversification of exports and promote the development of small to medium enterprises (SME).
- Investment Code, 2005, was designed to provide more protection for companies investing in Sierra Leone and to promote production and value-added activities. The

code directs government to encourage joint ventures and allow full foreign ownership. The code ensures there is no discriminatory economic or industrial strategy against foreign investors and no limit is imposed on foreign ownership or control.

- Business Registration Act, 2007, reduced company registration procedures to four steps. There are no restrictions on the amount of equity a foreign firm may own in a local business. In addition, there are no requirements that nationals own shares, that the share of foreign equity fall over time, or that technology be transferred under certain terms. There are also no “offset” requirements.

Contracts. The sanctity of contracts is upheld in law. In practice, the judicial system is slow and often inefficient and remains widely regarded as corrupt. When a judgment is rendered, enforcement may not follow. Of note is that the EU, UNDP and the governments of Ireland, Japan, and the U.K. all have judicial reform projects in Sierra Leone which include aspects of contract law.

Discrimination, Limits, or Denial of Treatment for Foreign Investors. There are no known economic or industrial policies or practices that have discriminatory effects on foreign investors. There are also no formal obstacles on foreign ownership or control, but there are restrictions in one business sector. The historical exploitation of the country’s vast mineral wealth (primarily diamonds, gold, iron ore, and bauxite) has led to legislated restrictions to protect small scale local artisan miners. Investments in mining of less than \$500,000 require a Sierra Leone holding of 25 percent.

Government Review of FDI. Sierra Leonean authorities do not screen investments. Companies have to register, but private investors generally do not consider the business registration process as a major impediment to investing.

Privatization. In its privatization program of 24 publicly owned enterprises, the GoSL is looking for investors, especially foreign and expatriate investors, who will bring significant capital and expertise to improve the financial performance of those institutions. Foreign investors are invited to participate in the privatization process. As an example, the GoSL-owned national radio station has recently been transferred to private control through the privatization bill. The port of Freetown privatization is scheduled to begin in March 2011.

Trade. Sierra Leone’s trade policies are relatively open and official non-tariff barriers have been eliminated. Tariff rates are consistent with those of its neighboring ECOWAS and West African Economic and Monetary Union (WAEMU) countries. Import and export licenses have been abolished for all but a small number of products. However, there are importing and exporting problems which have less to do with policy than with practice.

Customs clearance is slow, cumbersome, costly, and opaque, and discourages doing business in Sierra Leone. Goods are commonly subject to lengthy and complicated customs procedures which are assumed to exist only for corrupt purposes. Formal customs clearance and technical controls (either for importation or exportation) on average cost \$550 and take six days. Tariff

schedules are not always transparent which allows arbitrary assessments that can be challenged only with difficulty as appeals processes are ill defined and lengthy. Sierra Leone continues to use the Brussels Declaration of Value, as it has not yet adopted the World Trade Organization (WTO) Agreement on Customs Valuation.

Commercial Banks. Sierra Leone has a growing banking sector which is home to more than a dozen commercial banks that provide common services.

Commercial Banks in Sierra Leone, 2010 data

Sierra Leone Commercial Bank Limited	100% Government of Sierra Leone
Standard Chartered Bank (SL) Limited	81% SCB Holdings, 18% publicly owned, & 1% Directors
Rokel Commercial Bank (SL) Limited	51% Government of Sierra Leone, 40% Public, & 9% Staff
Union Trust Bank (SL) Limited	100% Private individuals
Guaranty Trust Bank (SL)	100% owned GTB PLC (Nigeria)
Skye Bank (SL) Limited	100% Skye PLC (Nigeria)
International Commercial Bank (SL) Limited	100% Malaysian
Ecobank (SL) Limited	100% Ecobank transnational
ProCredit Bank (SL)	79.2% ProCredit Holding AG, 12.1% KfW (both Germany), & 8.7% DOEN Foundation (Netherlands)
Access Bank (SL) Limited	85% Access Bank PLC & 15% Senator Polycarp Nwite (Nigeria)
United Bank for Africa (SL)	100% United Bank for Africa PLC (Nigeria)
First International Bank (SL) Limited	87% FIB Group (Gambia), 12% Individuals & 1% FIBank Gambia
Zenith Bank (SL) Limited	100% Zenith Bank PLC (Nigeria)
Bank PHB (SL) Limited	100% Bank PHB PLC (Nigeria)

Source: Bank of Sierra Leone

FDI Data. FDI inflows reached \$32.5 million in 1990 before the outbreak of the violent civil strife in 1991, and then declined rapidly for a decade. FDI has ranged from \$39 million in 2000, \$61 million in 2004, and \$43 million in 2006, to a high of \$90 million in 2007. Due to Chinese investments in road, building and significant mining projects, estimates of FDI in 2010 are at a level of over \$2 billion. Of note is that the heightened figure in 2010 reflects a large GoSL mining investment agreement, the viability of which is currently in question. Recent business reforms have made Sierra Leone a more friendly location for FDI. Among them are simpler start-up procedures for business registration, company law which provides stronger investment protection, enhanced Commercial Courts, better training and technology to make income tax management and collection more efficient, a Goods and Services Tax (GST) that replaced seven different taxes, and a smoother business insolvency process.

Major Indices Relating to FDI

Investment Climate Statement
Economic Section, U.S. Embassy, Freetown, Sierra Leone

Measure	Year	Index/Ranking
TI Corruption Perceptions Index	2010	2.4/#134
Heritage Economic Freedom	2011	47.9/#157
World Bank Doing Business	2011	#143
MCC Government Effectiveness	FY11	27 percent
MCC Rule of Law	FY11	45 percent
MCC Control of Corruption	FY11	40 percent
MCC Fiscal Policy	FY11	92 percent
MCC Trade Policy	FY11	29 percent
MCC Regulatory Quality	FY11	45 percent
MCC Business Start Up	FY11	27 percent
MCC Land Rights Access	FY11	22 percent
MCC Natural Resource Mgmt	FY11	14 percent

Significant Foreign Investors in Sierra Leone.

Company	Sector
Access Bank	Financial Services
African Minerals	Mining
Africell	Telecommunications
BMI Airline	Transportation (and Tourism)
Comium	Telecommunications
DHL	Logistics
EcoBank (SL) Ltd.	Financial Services
Heineken	Food and Beverages
Koidu Holdings	Mining
Maersk Line	Freight Services
Leocem	Cement Production
London Mining	Mining
Regimanuel-Grey	Construction
Sierra Rutile Ltd	Mining
SN Brussels Airlines	Transportation (and Tourism)
Standard Chartered Bank	Financial Services
Tigo	Telecommunications
United Bank for Africa Group	Financial Services
Zain	Telecommunications
Zenith Bank	Financial Services

Source: Sierra Leone Investment and Export Promotion Agency

Conversion and Transfer Policies

The Investment Code guarantees foreign investors the right to repatriate earnings and the proceeds of sales of assets and allows expatriate employees to repatriate earnings. There are no restrictions on converting or transferring funds associated with investments, including on remittances of investment capital, earnings, loan repayments, and lease payments. Investors can withdraw and remit any amount from a commercial bank and have it transferred into any freely convertible currency and at legal market clearing rates. Although U.S. businesses in rural areas have occasionally reported challenges repatriating earnings with local banks, it appears the central bank policies adhere to the new Investment Code and the challenges may come from distant commercial banks that are not aware of or not accustomed to these policies. Outflows of wealth are most often in the form of diamonds and other minerals rather than financial flows. Cash outflows are mostly for physical capital expenditures and to make payments abroad for expenses.

Foreign Exchange, Transfers, Credit Cards. Sierra Leone has a floating exchange rate. The Leone fluctuates, but overall has depreciated slowly over recent years, mainly due to increasing demand for financing current consumption and a decrease of inflows of foreign currency resulting from decreased mineral exports and decreased foreign remittances. Nevertheless, the Leone has been relatively stable in 2010 fluctuating from 3807/\$ to 4227/\$.

There are no legal restrictions on obtaining foreign exchange. The Central Bank conducts frequent foreign exchange auctions, typically on a weekly basis, but limits a single bidder to \$100,000. Additional foreign exchange is available through the banking system, but banks will provide cash only to customers who have deposited cash and customers who have deposited transfers can obtain only transfers.

The law requires that money transfers over \$10,000 be sent through the banking system to ensure transparency and provide paper trails for all transactions. The West Africa Bankers Association (WABA) had actively encouraged establishing a credit card-friendly environment in Sierra Leone, and progress toward that goal has occurred in 2010 with the first international ATMs and point of sale terminals opening and operating.

Expropriation and Compensation

There is no history of expropriations in Sierra Leone. World Bank indices indicate that Sierra Leone's laws on investment protection are strong. Investors' rights are covered across a range of areas such as:

- Open access to all sectors of the economy to foreign investment
- Rights to 100 percent foreign ownership of companies
- Freedom to use foreign managerial, technical and unskilled workers
- No exchange restrictions
- Guarantees on capital repatriation, loan remittance, and against expropriation

Dispute Settlement

The legal system inherited from the U.K. protects property and contract rights and there have been few notable disputes with property or contract rights affecting U.S. or other foreign investors. Investors have access to the judicial system, but the system is slow and is often subject to financial and political influence. Arbitration clauses in contracts and foreign judgments are respected. The Law Reform Commission is considering a new Commercial Law, but progress has been slow. One specific U.S. investor has claimed repeatedly over several years that his competitors are allowed to undervalue imports, thus paying less in duties and underselling him. Other investors complain that undervaluing goods bound for retail is necessary to reduce what many believe are exorbitant customs duties. The GoSL has expressed the desire to find a solution to this problem, but they have yet to resolve the issue. Sierra Leone is also a party to the Convention on Settlement of Investment Disputes between States and Nationals of Other States (The Washington Convention), which it ratified and put into force in October 1966.

Performance Requirements and Incentives

Performance Requirements. The GoSL has established no performance requirements prescribing mandatory percentages of exports, domestic content, required domestic inputs, or limiting access to foreign exchange. There is no requirement that investors purchase from local sources or export a certain percentage of output, and there are no legal limits on access to foreign exchange. There is no requirement that nationals own shares or that the share of foreign equity is reduced over time. There is also no requirement that technology is transferred on certain terms. There are no offset requirements or conditions on permission to invest.

Investment Incentives. The GoSL has developed some incentives available to investors across key Agenda for Change economic sectors. An annex to the 2005 Investment Code is expected to define investment incentives to be offered in some specific sectors, but it has not yet been completed.

General Taxes and Incentives:

- Three year exemption on import duty for plant, machinery and equipment
- Reduced duty rate of 3 percent on the import of raw materials
- Corporate tax rate of 30 percent
- Goods and services tax rate of 15 percent
- Personal income tax of 15-30 percent depending on incomes
- Social security contribution of 15 percent of gross salary
- 100 percent tax loss carry forward can be utilized in any year
- 125 percent tax deduction on R&D and training spending
- 125 percent tax deduction on expenses for export promotion activities
- Three year income tax exemption for skilled expatriate staff, where bilateral treaties permit

Agribusiness:

- Exemption on import duty for farm machinery and equipment, agrochemicals and other key inputs
- Income tax exemption to 2020 for companies, individuals and partnerships
- 50 percent of dividends paid from companies engaged in agricultural activity are exempt from withholding taxes

Infrastructure:

- Projects in excess of \$1,000,000 will be exempt from income taxes for the earlier of 10 years from start-up or the year 2020
- Additional incentives are also available for investments in what government considers pioneer industries, such as pharmaceuticals and solar energy

Mining:

- Tax rate reduced from 35 to 30 percent for all companies with audited accounts
- Losses allowed to be carried forward for 10 years following the date of initial production
- Capital allowance of 100 percent in the first year for prospecting and exploration expenses. For production rights and other expenditures, investors will be allowed an initial allowance of 40 percent in the year of expenditure followed by an annual allowance of 20 percent a year for the next three years following the date of initial production
- 100 percent of reclamation, rehabilitation and mine closure costs can be deducted in the year incurred

Tourism Investments in Hotels:

- Income tax exemption that expires in 5 years, 2015, or when the amount qualifying under the tax holiday exceeds 150 percent of original invested capital
- Three year exemption from import duties for key building materials and other inputs

Technology Transfer. There are no requirements for technology transfer under certain terms. There are no requirements that major procurements are approved only if the foreign supplier invests in manufacturing, R&D, or service facilities in Sierra Leone (no technology “offset” requirements).

Visa Incentives. The GoSL provides preference regarding visa, residence, and work permit requirements to nationals of other countries in the ECOWAS. U.S. citizens must have a visa to enter Sierra Leone, obtainable from the Sierra Leonean embassy in Washington or at other Sierra Leonean embassies. Airport visas are available, but cost \$100 and are not issued quickly. Foreign investors must have a self-employment/work permit from the Ministry of Labor, which takes six weeks to four months or longer to obtain and costs \$85. A foreigner also must have a residence permit. There is an application fee of \$100 and the permit costs \$1,000 for entrepreneurs and \$1660 for employees.

The Right to Private Ownership and Establishment

Foreign and domestic private entities have the right to establish and own business enterprises and engage in remunerative activities. Foreigners are free to establish, acquire and dispose of interests in business enterprises.

Protection of Property Rights

Land Tenure. There are two legal types of land tenure in Sierra Leone. Freetown and the Western Area, the former British colony of Sierra Leone, operate under a freehold system. Outside the Western Area, land is governed under a leasehold system. Foreigners cannot own land under either system, but can lease land for terms of up to 99 years. Officially there is complete and open access to the court system if an individual or enterprise believes its interests are compromised, but judicial practice is open to political and financial influence. There is no effective land titling system to validate property rights which means that land is frequently sold by individuals who have no legal ownership thus restricting and complicating investment.

Sierra Leonean citizens can acquire private land in Freetown and the Western Area only. State lands are obtained from the State Lands Committee and the Ministry of Lands via a bureaucratic and allegedly corruption-prone process that typically takes 65-70 business days. In the past, State Land has been appropriated by government officials for personal use without proper sale or procedures. Under the Customary Land system, an investor can lease land by entering into a joint venture for economic purposes with the local paramount chief who controls the land in his district. The system is designed to protect the livelihood of indigenous and local communities or the traditional users of the land: householders, subsistence farmers, herders, and small producers.

The Ministry of Lands placed a moratorium on selling land in November 2008 because of a variety of abuses. While the government has lifted the ban on the sale of private land, the sale of public lands remains prohibited. The government is receiving support from external donors to redesign the land tenure system.

Mortgages and Property Loans. Mortgages exist in Sierra Leone, but the real estate market is minimal and mortgages are not common. When they are given, mortgages can carry long terms, but are more commonly of short duration and high interest. Short-term bank loans for new construction are more common. Many Sierra Leoneans and businesses will enter into construction projects with whatever funds they have amassed, and halt construction when the money runs out until they can save more. In this way, a single-family home can take a lifetime to build, but remains in families for generations.

Intellectual Property. Sierra Leone has been a member of the World Intellectual Property Organization (WIPO) since its inception. As a result, Sierra Leone is also bound to implement the international standard for intellectual property, the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Designated one of the least-developed countries (LDC) in the WTO, Sierra Leone has until July 1, 2012 to implement its obligations under the TRIPS agreement. Sierra Leone is also a member of the common intellectual property (IP) organization for English-speaking Africa, the African Regional Intellectual Property

Organization (ARIPO) and parties to its main instruments: the Harare (patents) and the Banjul (marks) protocols which establish a common system for obtaining and maintaining protection for patents, trademarks, and industrial designs.

In Sierra Leone, only the most basic elements of an IP regime are in place and functioning. Generally, IP rights are poorly understood as a tool for protecting innovation, brands, and creative works to create wealth. IP law in Sierra Leone is outdated and incomplete. Since 2005, the GoSL has been making efforts to modernize the IP system, but IP is not a high GoSL priority and progress has been limited due to the scarce financial resources and limited institutional capacities available. Customs screening for counterfeit or pirated goods coming from China, Nigeria, Dubai and other centers of illegal production is weak. When goods are confiscated, they often re-appear in the market. Popular music and films are illegally copied and sold in Sierra Leone. While some recorded American music and films are affected, this practice mostly affects local and regional music as well as popular Nigerian films.

There is a clear need for extensive technical and financial assistance to bring the national IP system into compliance with TRIPS by the July 2013 deadline. The GoSL has been working with the International Centre for Trade and Sustainable Development (ICTSD), ARIPO, and London-based Saana Consulting in developing projects to meet Sierra Leone's needs in developing a TRIPS compliant IP regime.

Transparency of Regulatory System

SLIEPA is in the process of trying to streamline regulatory procedures. Regulatory processes are perhaps the most likely area for corruption. Licenses, contract enforcement, and high tax rates remain problems. One notable effort to improve clarity is the Government's establishment of a "one stop center" where investors can obtain all required permits and licenses.

The Government does not specifically use tax, labor, environment, health and safety or other laws and policies to distort or impede investment. However, corruption exists relative to all those issues. There is no codified discrimination against foreign investors within any regulatory processes. There are no private sector or government efforts to restrict foreign participation in industry standards-setting consortia or organizations.

Efficient Capital Markets and Portfolio Investment

Policies generally facilitate the free flow of financial resources, and are improving. Citizens and foreigners have access to credit under the same market terms. Credit is rarely a problem for foreign investors as they typically bring in capital from outside the country and have well-established banking relationships that enable them to obtain working and trading capital. Credit is much more difficult to obtain in the indigenous private sector because the land tenure system and a recent moratorium on land sales make collateral very difficult to establish. The lack of a titling system makes it difficult for a lender to identify the true owner of land and therefore

makes land a poor source of collateral. Most private businesses in Sierra Leone use overdraft on bank accounts as their only form of revolving credit.

Portfolio investing has not taken hold in Sierra Leone, as it is just now advancing from being a cash-only economy to one with electronic transactions. Sierra Leone created a stock exchange in 2007, but it can more accurately be viewed as an Interim Stock Trading Facility with the purpose to provide a regulatory framework for share transactions consistent with international financial practices.

There is no evidence of cross-shareholding and stable shareholder arrangements in Sierra Leone. There is no history of hostile takeovers in Sierra Leone. Interest rates are decreasing with the addition of new banks and other financial institutions; they now range between 17-25 percent. The Government's bonds earn about 25 percent interest.

As a rule, banks do not invest in equity projects. Lending risk is still a challenge for private banks due to the land titling challenge. An inefficient judicial system and the lack of bankruptcy laws make it very difficult for a lender to recover collateral in the event of a default.

Assets of Commercial Banks in Sierra Leone, 2009 Data	
Sierra Leone Commercial Bank	\$109 million
Rokel Commercial Bank	\$93 million
Standard Chartered Bank	\$71 million
Union Trust Bank	\$55 million
Eco Bank	\$ 49million
Guarantee Trust Bank	\$29 million
First International Bank	\$23 million
Access Bank	\$15 million
Pro-Credit Bank	\$11 million
International Commercial Bank	\$9 million
Sky Bank	\$8 million
United Bank for Africa	\$7 million
Zenith Bank	\$5 million

Source: Bank of Sierra Leone

Bank of Sierra Leone (Federal Bank) Assets, 2008 data		
Foreign Currency Financial Assets	Leones'000	\$
Cash and Cash Equivalents	545,169,488	129,802,259
IMF Related Assets	95,250,835	22,678,770
Investments	11,795,458	2,808,442
Accrued Interest	2,073,504	493,691
Total Foreign Currency Financial Assets	654,289,285	155,783,163
Local Currency Financial Assets		

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Treasury Bills and Bearer Bonds	72,179,175	17,185,518
Accrued Interest	602,680	143,495
5 yr Medium Term Bonds	50,000,000	11,904,762
Loans and Advances	12,015,488	2,860,830
Total Local Currency Financial Assets	134,797,343	32,094,605
Total Financial Assets	789,086,628	187,877,769

Source: Bank of Sierra Leone

Competition from State-Owned Enterprises (SOEs)

When private enterprise competes with public enterprise, Sierra Leone law dictates that the same terms and conditions apply with respect to access to markets, credit, and other business operations. A common sector where this occurs is in the internet service provider market where state owned enterprise (SOE) SierraTel operates alongside several commercial entities. SOEs can also be found in the power and water sectors. These monopolies are sometimes the result of the unique limitations of physical infrastructure which does not allow competition. The significant challenge of providing power to the growing population of Freetown has led the GoSL to consider other power options. The energy sector therefore, offers significant opportunity for foreign investment. The advent of wireless phones has made landline phones less pervasive and more privatization has occurred in that sector as well.

Each SOE is managed uniquely, though most report through an office to a cabinet minister. Through the national privatization process, SOE boards of directors are beginning to be established. Sierra Leone does not have a Sovereign Wealth Fund. SOEs are not required by law to publish an annual report or to submit their books to independent audit.

State Owned Enterprises in Sierra Leone:

Transportation Sector

- Sierra Leone Port Authority (SLPA)
- Mechanical Services Unit
- Sierra Leone Road Transport Corporation (SLRTC)
- Sierra Leone Airport Authority (SLAA)
- Sierra Leone National Shipping Company
- Mining and General Services Limited

Telecommunications Sector

- SierraTel

Power and Water Sector

Financial Services

- Sierra Leone Commercial Bank
- Rokel Commercial Bank

- National Insurance Company
- National Development Bank
- Sierra Leone Housing Company

The country's leading private equity fund is Manocap. Established in 2005, Manocap invests in small to medium-sized agriculture, fisheries, and light manufacturing enterprises. So far, the company has invested several million US dollars into Sierra Leonean businesses. The challenges of private equity include gaining information to conduct due diligence on management teams, finding opportunities that meet the rate of return needs of up to 30 percent, and determining an initial offering price.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) in Sierra Leone is occurring less due to altruistic motivations, but more so as companies are finding favor with the government and value in marketing social improvement efforts. There is a general awareness of CSR in the Sierra Leone business community, although Sierra Leone consumers do not often make distinct choices to trade with or purchase from businesses based on their CSR programs. Business CSR efforts are often confused with nongovernmental (NGO) philanthropic efforts. To gain favor with the government, large firms, including SOEs, are more often including CSR programs that address GoSL Agenda for Change goals or Millennium Development Goals in areas such as education, health, environmental management, sports, and Small Medium Enterprise (SME) development. Due to the intense international focus on abuse in the mining sector, firms operating in this sector more often have CSR programs that focus on education, community resource management and environmental sustainability, SME development, and health. Telecom companies in particular have demonstrated a willingness to fund community projects in exchange for sponsorship credit.

Political Violence

Political violence remains minimal in Sierra Leone. During the violence that occurred from 1991 to 2002, mining installations and a great deal of physical infrastructure was destroyed. The only more recent incident was vandalism at an African Minerals company site by local villagers who objected to their Paramount Chief's granting use of the land by the company. After the war ended in January 2002, a successful demobilization, disarmament, and reintegration program followed and a large U.N. peacekeeping mission guaranteed security. The U.N. peacekeepers departed in December 2005 and security responsibilities are today in the hands of the Sierra Leonean army and police complemented by an ongoing U.K. government train and equip program. The U.N. retains a peace consolidation mission in Sierra Leone which oversees all U.N. agencies. Although Sierra Leone is a "fragile state," the country is calm so insurance costs and risk premiums should not reflect the earlier realities of the 1990s.

There are no nascent insurrections or belligerent neighbors aiming to destabilize Sierra Leone. Understandably, Sierra Leoneans and the GoSL are very sensitive to the political and security conditions in bordering Guinea and Liberia as well as in nearby nations like Cote D'Ivoire. Disruption of cross border trade with Guinea would have a direct effect on availability and cost

of foodstuffs and other goods. In the run up to the 2012 presidential election, there will be a potential for political rallies to snarl traffic, and some vandalism is to be expected. U.K. and U.N. training and new equipment have helped the Sierra Leone Police increase capacity to handle such events. The police performed well during the 2007 national elections; therefore, at this time, significant political violence is not foreseen in the 2012 election period.

Corruption

Sierra Leone signed the U.N. Convention Against Corruption in December 2003 and ratified it in September 2004. Sierra Leone established its independent Anti-Corruption Commission (ACC) in 2000, and significantly strengthened it in the Anti-Corruption Act of 2008. The Anti-Corruption Act is not used disproportionately against foreigners. The ACC is charged with investigating cases and educating the public to reduce corruption in its many forms. The ACC is empowered to prosecute and has produced several indictments. In the last two years, the Minister of Health resigned facing an ACC indictment, the former Commissioner General of the National Revenue Authority was convicted on 57 counts of abuse of office, the Minister of Fisheries was convicted of five counts of abuse of public funds, and the head of the regulatory body for the gold market was relieved facing an ACC investigation. Additionally, government officials are now mandated to submit disclosure forms regarding their personal finances to the ACC.

The progress of the ACC was widely attributed to ACC head, Abdul Tejan-Cole. His departure from his position in May 2010 unsettled some international investors, but his successor, Joseph Kamara, has widened the scope of the office and, for example, recently charged the former head of the National Revenue Authority on 57 counts of corruption. Kamara's actions indicate both that the ACC seems determined to continue to pursue corruption, but also confirms that there are corrupt officials at many levels of the GoSL.

On December 9, 2010 Commissioner Kamara was presented the World Bank Award for Integrity for his efforts in combating corruption in Sierra Leone. Nevertheless, bribes, kickbacks, extortion, and skimming remain a problem specifically in government procurement, transfers, dispute settlement, and taxation. Giving or accepting a bribe is a criminal act, both within Sierra Leone and from a local company or individual to a foreign official, and the ACC maintains the responsibility to prosecute these crimes. Penalties vary based on the magnitude of the bribe.

In the particularly sensitive area of extractive industries, Sierra Leone is a candidate country of the Extractive Industries Transparency Initiative (EITI) whose mandate is to increase transparency of payments by companies to governments and to government-linked entities and increase transparency over revenues by host country governments in the extractive industries. As a Candidate Country, Sierra Leone has fully satisfied the EITI Board standards. Sierra Leone now has two years to be validated as an EITI Compliant Country.

Sierra Leone's score on Transparency International's (TI) 2010 "Corruption Perception Index" has dropped for the third year to a score of 2.4, ranking Sierra Leone 134 globally. Along with

TI, the Campaign for Good Governance is another local NGO watchdog organization for corruption.

Bilateral Investment Agreements

Sierra Leone does not have a bilateral investment treaty (BIT) or taxation treaty with the U.S., but has two bilateral BITs: one each with the U.K. and Germany. The BIT between the United Kingdom of Great Britain and Northern Ireland and the GoSL is entitled “For the Promotion and Protection of Investments” was signed in Freetown on January 13, 2000 and entered into force on November 20, 2011 for a 10 year period. Among the issues the BIT addresses are promotion and protection of investment, national treatment and most-favored-nation provisions, compensation for losses, expropriation, repatriation of investment and returns, and disputes between the contracting parties. The BIT with Germany is entitled “The Encouragement and Reciprocal Protection of Investments;” was signed with West Germany on April 8, 1965; and is still recognized by the United Nations Conference on Trade and Development.

OPIC and Other Investment Insurance Programs

There is one current Overseas Private Investment Corporation (OPIC) project (insurance) in Sierra Leone. There is potential for expanded OPIC support relative to Sierra Leone and this is beginning to be addressed in U.S. Embassy efforts to enhance the U.S. business community groups working in and with Sierra Leone. Sierra Leone is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

The Right of Association. The law allows workers to join unions of their choice without prior authorization or excessive requirements; however, it prohibits civil service employees, police, and members of the armed services from joining unions. The law allows unions to conduct their activities without interference, and the government generally protects this right; however, in some private industries employers were known to intimidate workers to prevent them from joining a union. According to the Ministry of Labor, approximately 35 to 40 percent of workers in the formal economy were unionized, including mainly agricultural workers, mineworkers, and health workers. Unions have the right to strike, although the government requires 21 days' notice. The law does not prohibit retaliation against strikers, even for a lawful strike.

The Right to Organize and Bargain Collectively. The law provides for collective bargaining if it takes place in trade group negotiating councils, each of which must have an equal number of employer and worker representatives. Collective bargaining is widespread in the formal sector and most enterprises are covered by collective bargaining agreements on wages and working conditions. The law does not prohibit anti-union discrimination against union members nor employer interference in the establishment of unions.

Prohibition of Forced or Compulsory Labor. The law prohibits forced and compulsory labor, including by children; however, the government does not effectively enforce the law and the practice of forced labor still occurs particularly in agriculture and diamond mining. Under the law, individual chiefs may impose forced labor as punishment and often require villagers to contribute to the improvement of common areas as punishment.

Women. The situation regarding women in the Sierra Leone labor force is unique in two aspects: the statistics for women generally are less positive than those for men and the contribution of women to Sierra Leone's agrarian economy is substantial.

Today, just over one third of the total adult population in Sierra Leone is literate. This figure shrinks to 23 percent among women. Paid employment accounts for less than 6 percent of total employment. Again, this figure shrinks to only 2 percent of women reporting paid employment. Although Sierra Leone law affords women equal rights in land ownership, much land tenure is determined by unwritten customary traditions and laws where women have very limited property rights. An analysis of credit schemes in Sierra Leone found that women had received less than 10 percent of the credit directed to smallholders and 1 percent of the total credit to agriculture.

Like much of sub-Saharan Africa, women are most often the head of a farming family in Sierra Leone. Statistics show that within the agricultural sector, Sierra Leone women perform most of the work: processing food crops and providing household water and wood fuel (90 percent); food storing and transporting from farm to village (80 percent); hoeing and weeding (90 percent); and harvesting and marketing (60 percent). In sum, the contribution of women to Sierra Leone's agricultural sector amounts to about 60 to 80 percent. Given that the agricultural sector represents 51 percent of the nation's GDP, Sierra Leone women farmers directly affect 30-40 percent of the nation's GDP.

Prohibition of Child Labor and Minimum Age for Employment. Child labor is widespread. Almost half of children aged 14-15 years were engaged in some form of child labor. The rate varied from 27 percent in urban areas to 57 percent in rural areas. The law limits child labor, allowing light work at age 13, full-time work at age 15, and hazardous work at age 18. The law states that children under 13 should not be employed in any capacity; however, enforcement was not effective.

Children aged 15 may be apprenticed (provided they have finished schooling) and employed full-time in nonhazardous work. The law also proscribes work by any child under 18 to occur between 8 p.m. and 6 a.m. The law sets health and safety standards and requires school attendance through the age of 15.

In rural areas children often work seasonally on family subsistence farms. Children also routinely assist in family businesses and work as petty vendors. Adults engage street children to sell, steal, and beg. Due to the high adult unemployment rate, few children are involved in the industrial sector or elsewhere in the formal economy. Many girls, particularly those displaced from their homes and with few resources, resort to prostitution as a means to support themselves.

Acceptable Conditions of Work. Formal sector employment is largely governed by collective bargaining agreements between employers and unions. Such agreements are common in sectors such as tourism, commerce, petroleum, manufacturing, media, entertainment, financial services, general services, and public utilities. The national minimum wage, covering all occupations including in the informal sector, was set at about 150,000 Leones (\$36) per month, which does not provide a decent standard of living for a worker and family. The Ministry of Labor is responsible for enforcing the minimum wage, but lacks the resources to do so effectively. Compliance is difficult to monitor in the informal business sectors. Most workers support an extended family and it is common to pool incomes and to supplement wages with subsistence farming and child labor. A controversial aspect of GoSL policy regarding foreign investment is that foreign companies are permitted to import any labor they require including unskilled workers. With youth unemployment at over 40 percent, this issue is proving to be very contentious and may be an issue in the 2012 election season.

Although not stipulated by law, the standard workweek is 40 hours (60 hours for security personnel). Two consecutive days off per work week is mandatory. Work beyond 40 hours is paid at 50 percent overtime and required work on rest days is 100 percent overtime. Employers negotiate work hours with employees at the time of hiring. There is no prohibition on excessive compulsory overtime.

Workers can be dismissed for incompetence, inefficiency, violation of rules, or serious offenses in a reasonably straightforward manner. After two written warnings an employee can be dismissed without compensation. There is an appeals process via employer-union consultations and possible intervention by the Commissioner of Labor.

Foreign Trade Zones/Free Trade Zones

In 2003, the GoSL and Chinese company Henan Guoji Group launched a joint venture to develop an industrial and trade zone. The GoSL was to provide the land and existing buildings while Henan Guoji Group would supply capital, expertise, and some labor. The venture was not completed reportedly because the two parties could not finalize agreement on incentives and exemptions to be provided by the GoSL.

U.S. based First Step, a subsidiary of the non-profit international development agency World Hope International (WHI), has established a Special Economic Zone (SEZ) in Sierra Leone on 50 acres near the country's principal seaport in Freetown. First Step will lease space to partner firms and assist them with networking, logistics support, and establishing their operations. Among the incentives provided to the SEZ by the GoSL are import and export duty exemptions; three year corporate tax holidays; and expedited government services including customs, immigration, and registration. The First Step SEZ is the only SEZ in Sierra Leone and the first in West Africa.

Foreign Direct Investment Statistics

Sierra Leone had to redesign its social and economic structure after the civil war of the 1990s when FDI levels were at essentially zero. In 2007, when the world's attention and significant foreign aid money and efforts were still focused on helping Sierra Leone recover from the more than decade long war, FDI was at \$90 million. FDI levels have since declined and in 2009 Sierra Leone attracted \$33 million in FDI. FDI stock (value of the capital and reserves in the Sierra Leone economy from an external enterprise) declined from the \$612 million level in 2007 to \$460 million in 2009. Given Sierra Leone's GDP of \$1.94 billion in 2009, FDI is at 1.7 percent and FDI stock is at 23.7 percent of GDP respectively. Sierra Leone has little FDI of its own abroad to report. Outflows of wealth from Sierra Leone remain dominated by the export of diamonds and other minerals rather than financial flows.

Web Resources

African Growth Opportunity Act – www.agoa.gov

Bank of Sierra Leone: <http://www.bankofsierraleone-centralbank.org/>

GoSL: <http://www.sierra-leone.org/government.html>

MCC: <http://www.mcc.gov/pages/selection/scorecards/>

Sierra Leone Investment and Export Promotion Agency (SLIEPA): <http://www.sliepa.org/>

Transparency International:
http://www.transparency.org/policy_research/surveys_indices/cpi/2010

UNCTAD (FDI):
<http://www.unctad.org/>
<http://unctadstat.unctad.org/>

UNDP: <http://hdr.undp.org/en/statistics/hdi/>

World Bank Group and IFC:
<http://data.worldbank.org/country/sierra-leone>
<http://www.doingbusiness.org/data/exploreeconomies/sierraper cent20leone>
<http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

WTO: http://www.wto.org/english/thewto_e/countries_e/sierra_leone_e.htm